

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

FERNDALÉ HOUSING COMMISSION

Financial Statements

December 31, 2004

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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Management's Discussion and Analysis (MD&A)

December 31, 2004

This section of the Ferndale Housing Commission (Commission) annual financial report presents our management's discussion and analysis of the Commission's financial performance during the fiscal year ended on December 31, 2004. This discussion and analysis focuses on the significant financial issues and activities and identifies any significant changes in financial position. The following information should be considered in conjunction with the financial statements as a whole.

Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements _ and Management's Discussion and Analysis _ for State and Local Governments issued June 1999.

For accounting purposes, the Housing Commission is classified as an enterprise fund. Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The focus of enterprise funds is an income measurement, which, together with the maintenance of equity, is an important financial indication.

FINANCIAL HIGHLIGHTS

The term "net assets" refers to the difference between assets and liabilities. The Commission's total net assets as of December 31, 2004 were \$6,366,233 compared to December 31, 2003 which was \$6,530,752. The net assets decreased by \$158,623 a decrease of 2.43%.

Revenues and contributions for the Commission were \$2,267,390 for the year ended December 31, 2004 compared to December 31, 2003 which was \$1,846,680. This was an increase of \$420,710 or 22.78% from the prior year.

FINANCIAL HIGHLIGHTS, (CONTINUED)

Expenses for the Commission were \$2,431,909 for the year ended December 31, 2004 compared to December 31, 2003 which was \$2,133,597. This was an increase of \$298,312 or 13.98% from the prior year.

HUD grants were \$1,864,996 for the year ended December 31, 2004 compared to \$1,432,669 for the year ended December 31, 2003. This was an increase of \$432,327 over the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this *Management Discussion and Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*.

The Commission's financial statements are presented as fund level financial statements because the Commission only has proprietary funds.

Required Financial Statements

The financial statements of the Housing Commission report information of the Commission using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets includes the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities). It also provides the basis for evaluating the capital structure of the Commission and assessing the liquidity and financial flexibility of the Commission.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what the change in the cash balance was during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

OVERVIEW OF THE FINANCIAL STATEMENTS, (CONTINUED)

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established *Uniform Financial Reporting Standards* that require Housing Commission's to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) for the year ended December 31, 2004 and is required to be included in the audit reporting package

FINANCIAL ANALYSIS

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the table on the following page, assets exceeded liabilities by \$6,366,233 at the close of the year ended December 31, 04 compared to \$6,524,856 in 2003. The decrease in net assets by \$158,623 was primarily due to a decrease in unrestricted net assets.

The unrestricted net assets were \$217,045 as of December 31, 2004. This amount may be used to meet the Commission's ongoing obligations. The Commission had no net assets classified as restricted that are subject to external restrictions on how they may be used. At the end of the current fiscal year, the Commission is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

CONDENSED STATEMENTS OF NET ASSETS, DECEMBER 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets	\$ 535,845	\$ 730,914	\$ (195,069)	-26.69%
Restricted assets	0	0	0	
Capital assets	6,149,188	6,221,404	(72,216)	-1.16%
Total Assets	<u>6,685,033</u>	<u>6,952,318</u>	<u>(267,285)</u>	-3.84%
Current liabilities	266,600	395,388	(128,788)	-32.57%
Noncurrent liabilities	52,200	32,074	20,126	62.75%
Total Liabilities	<u>318,800</u>	<u>427,462</u>	<u>(108,662)</u>	-25.42%
Net Assets				
Invested in capital assets	6,149,188	6,221,404	(72,216)	-1.16%
Unrestricted	217,045	303,452	(86,407)	-28.47%
Total Net Assets	<u>\$ 6,366,233</u>	<u>\$ 6,524,856</u>	<u>\$ (158,623)</u>	-2.43%
Expendable Fund Balance	<u>\$ 269,245</u>	<u>\$ 335,526</u>	<u>\$ (66,281)</u>	-19.75%
No. of Months Expendable Balance	<u>1.53</u>	<u>2.20</u>	<u>(0.67)</u>	

FINANCIAL ANALYSIS, (CONTINUED)

A portion of the Commission's net assets reflects its investment in capital assets (e.g. land, buildings and equipment) less accumulated depreciation. The Commission uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending.

Total Assets for 2004 are \$6,685,033 and for 2003 the amount was \$6,952,318. This represents a decrease of \$267,285 which is due to a decrease in cash, increase in, investments and prepaid expenses.

Total liabilities decreased by \$108,662 due to a decrease in current liabilities.

The expendable fund balance decreased by \$66,281 for the year ended December 31, 2004. The expendable fund balance of a Commission is a measure of the liquidity of the entity. If all of the Commission's current assets, less materials inventory, are converted to cash, and the Commission pays all current liabilities, the amount of cash left on hand is the expendable fund balance.

The number of months expendable fund balance decreased from 2.20 months in 2003 to 1.53 months in 2004. The number of months expendable fund balance is a measure of how many months the Commission could operate under current conditions without any additional income. The number of months of expendable fund balance is calculated by dividing the total expenses for the year, less depreciation, by twelve (12) to arrive at the average monthly expenses. The expendable fund balance is then divided by the average monthly expenses to arrive at the number of months expendable fund balance.

While the Statement of Net Assets shows the change in financial position of net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET

ASSETS, DECEMBER 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues and Contributions				
Operating - non-operating -capital contributions:				
Rental revenue	\$ 398,755	\$ 397,536	1,219	.003%
HUD grants	1,864,996	1,432,669	432,327	30.17%
Interest income	2,726	2,778	-52	-1.89%
Other Tenant Revenue	-0-	2,954	-2,954	-100%
Other income	913	10,743	-9,830	-89.63%
Total Revenues and Contributions	<u>2,267,390</u>	<u>1,846,680</u>	<u>420,710</u>	22.78%
Expenses				
Administrative	396,791	350,381	46,410	13.25%
Tenant Services	1,219	17,562	-16,343	-93.06%
Utilities	125,271	118,859	-6,412	-5.40%
Operations and maintenance	276,547	287,674	-11,127	-3.87%
General Expense	80,879	80,688	191	0.23%
Extraordinary Maintenance & Casualty Losses	7,505	10,205	-2,700	-26.45%
Housing assistance payments	1,237,547	959,453	278,094	28.98%
(Gain) Loss on sale of fixed assets	(7,512)	-0-	7,512	100.0%
Depreciation	313,662	302,259	11,403	3.77%
Total Expenses	<u>2,431,909</u>	<u>2,133,597</u>	<u>298,312</u>	13.98%
Change in net assets	(164,519)	(286,917)	(122,398)	42.66%
Beginning net assets	<u>6,530,752</u>	<u>6,817,669</u>	<u>286,917</u>	4.21
Ending net assets	<u>\$ 6,366,233</u>	<u>\$ 6,530,752</u>	<u>\$ 164,519</u>	2.52%

As can be seen in the above table total revenues and contributions increased by \$400,710 due to an increase in HUD operating grants and an increase in capital contributions. There was a small increase in rental revenue by \$1,219. However, some of the increases were offset by a decrease in other income by \$9,830.

Total expenses increased by \$298,312 due to increases in personal services, utilities, depreciation and housing assistance payments.

CAPITAL ASSETS

Capital Assets - The Ferndale Housing Commission's investment in capital assets, as of December 31, 2004 amounts to \$6,149,188 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment and construction in progress.

**CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION
DECEMBER 31, 2004 and DECEMBER 31, 2003**

	<u>2004</u>	<u>2003</u>	<u>Additions</u>
Land	\$ 823,793	\$ 823,793	\$ -0-
Building	5,684,153	5,684,153	-0-
Furniture, equipment and machinery- Dwelling	38,212	38,212	-0-
Furniture, equipment and machinery- Administration	172,042	187,612	(15,570)
Leasehold improvements	3,071,634	2,533,040	538,594
Construction in progress	0	0	-0-
	<u>9,789,834</u>	<u>9,266,810</u>	<u>523,024</u>
Accumulated depreciation	<u>3,640,646</u>	<u>3,345,406</u>	<u>\$ 295,240</u>
Total	<u>\$ 6,149,188</u>	<u>\$ 5,921,404</u>	<u>\$ 227,784</u>

The total increase in the Commission's capital assets for the current fiscal year was \$523,024 in terms of net book value. The Commission has funds available in Capital Funds to draw down and spend in the future. These funds could be used for capital expenditures or routine operations and maintenance.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Housing Commission is primarily dependent upon HUD for the funding of operations; therefore, the Housing Commission is affected more by the Federal budget than by local economic conditions. The Commission will have an increase of units in Voucher Program. The funding of programs could be significantly affected by the 2005 Federal budget.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Ms. Debbie Wilson, Executive Director; Ferndale Housing Commission; 415 Withington Street; Ferndale, Michigan 48220.

John C. DiPiero, P.C.

Certified Public Accountant

P. O. Box 378
Hemlock, Michigan 48626
Tel / Fax (989) 642-2092

Board of Commissioners
Ferndale Housing Commission
415 Withington
Ferndale, Michigan 48220

Independent Auditor's Report

I have audited the financial statements listed in the Table of Contents of the Ferndale Housing Commission as of and for the year ended December 31, 2004. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1 to the financial statements, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis -for State and Local Governments* as of January 1, 2004. This results in a change in the format and content of the basic financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ferndale Housing Commission as of December 31, 2004, and the results of its operations and the cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Combining Financial Statements

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

June 17, 2005

FERNDALÉ HOUSING COMMISSION
Combined Statement of Net Assets
December 31, 2004

ASSETS

C-3089

CURRENT ASSETS

Cash	\$	145,302	
Accounts Receivable- Tenants (net of allowance of \$ 760)		760	
Accounts Receivable- HUD		53,479	
Accounts Receivable- Other		41	
Investments		173,304	
Prepaid Expenses		20,658	
Inter Program due from		<u>142,301</u>	
Total Current Assets			\$ 535,845

NON CURRENT ASSETS

Land	\$	823,793	
Buildings		5,684,153	
Furniture, Equipment- Dwelling		38,212	
Furniture, Equipment- Administrative		172,042	
Leasehold Improvements		3,071,634	
Accumulated Depreciation		<u>(3,640,646)</u>	
Total Non Current Assets			<u>6,149,188</u>

TOTAL ASSETS \$ 6,685,033

FERNDALÉ HOUSING COMMISSION
Combined Statement of Net Assets
December 31, 2004

LIABILITIES & NET ASSETS

C-3089

LIABILITIES:

CURRENT LIABILITIES

Accounts Payable	\$	23,921
Accrued Wages & Payroll Taxes		17,475
Accrued Compensated Absences		4,670
Tenants Security Deposit		33,700
Accounts Payable- HUD		1,145
Accounts Payable- Other Governments		23,584
Deferred Revenue		7,636
Other Current Liabilities		22,333
Inter-Program Due To		<u>132,136</u>
<u>Total Current Liabilities</u>	\$	266,600

NON CURRENT LIABILITIES

Accrued Compensated Absences-non current		<u>52,200</u>
<u>Total Non Current Liabilities</u>	\$	318,800

NET ASSETS:

Invested in Capital Assets, net of Related Debt	\$	6,149,188
Unrestricted Net Assets		<u>217,045</u>
<u>Total Net Assets</u>		<u>6,366,233</u>

TOTAL LIABILITIES & NET ASSETS \$ 6,685,033

The Accompanying Footnotes are an Integral Part of the Financial Statements

FERNDALE HOUSING COMMISSION
Combined Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended December 31, 2004

OPERATING REVENUES

Tenant Rental Revenue	\$ 398,755	
HUD Grants	1,864,996	
Interest Income	2,726	
Other Income	<u>913</u>	
<u>Total Operating Revenue</u>		\$ 2,267,390

OPERATING EXPENSES

Administrative	\$ 396,791	
Tenant Services	1,219	
Utility Expenses	125,271	
Ordinary Maintenance	276,547	
General Expenses	<u>80,879</u>	
<u>Total Operating Expenses</u>		<u>880,707</u>

Operating Income (Loss) \$ 1,386,683

NONOPERATING REVENUES (EXPENSES)

Housing Assistance Payments	\$ (1,237,547)	
Extra Ordinary Maintenance	(7,505)	
Gain on the Sale of Assets	7,512	
Depreciation Expenses	<u>(313,662)</u>	
<u>Total Nonoperating Revenues (Expenses)</u>		<u>(1,551,202)</u>

Change in Net Assets \$ (164,519)

Total Net Assets- Beginning 6,530,752

Total Net Assets- Ending \$ 6,366,233

The Accompanying Footnotes are an Integral Part of the Financial Statements

FERNDALE HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended December 31, 2004

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 400,534
Payments to Suppliers	(1,941,437)
Payments to Employees	(298,746)
HUD Grants	1,864,996
Other Receipts (Payments)	<u>11,151</u>
Net Cash Provided (Used) by Operating Activities	\$ 36,498

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	<u>(241,446)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (207,948)
Balance- Beginning of Year	<u>353,250</u>
Balance- End of Year	\$ <u>145,302</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ (164,519)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	313,662
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	(29,902)
Investments	(2,620)
Prepaid Expenses	(8,729)
Inter Program due from	28,372
Changes in Liabilities Increase (Decrease):	
Accounts Payable	(77,485)
Accrued Liabilities	(3,536)
Accrued Compensated Absences	12,510
Account Payable- HUD	(16,001)
Accrued Liabilities	6,831
Deferred Revenue	4,542
Security Deposits	1,745
Inter Program due to	<u>(28,372)</u>
Net Cash Provided by Operating Activities	\$ <u>36,498</u>

The Accompanying Notes are an Integral part of the Financial Statements

FERNDALE HOUSING COMMISSION
Notes to Financial Statements
December 31, 2004

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Ferndale Housing Commission, Ferndale, Michigan, (Commission) was created by ordinance of the city of Ferndale. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 96 1, 2, 4	Low rent program	167 units
MI 28 V	Section 8 Vouchers	151 units
	New Construction	60 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above, there are no component units.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided they don't conflict with Governmental Accounting Standards Board (GASB) pronouncements.

In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34, Basic Financial Statements-Management's Discussion and Analysis- for State and Local Governments. Certain of the significant changes in the Statement include the following:

For the first time the financial statements include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Housing Commission's financial position and results of operations.
- Financial Statements prepared using full accrual accounting for all the Commission's activities.

A change in the fund financial statements to focus on the major funds.

Notes to Financial Statements- continued

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and undesignated fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Notes to Financial Statements- continued

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 57,520
Petty Cash	<u>100</u>
Total Cash	\$ 57,620
Investments reclassified as cash equivalents	<u>87,682</u>
Total Cash & cash equivalents	\$ <u>145,302</u>

Investments:

Certificates of Deposit	\$ 173,304
Savings Account	<u>87,682</u>
	\$ 260,986
Reclassified as Cash equivalents, above	<u>(87,682)</u>
Financial Statement Total	\$ <u>173,304</u>

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash:					
Checking A/C's	\$ 57,520	\$	\$	\$ 57,520	\$ 57,520
Savings Accounts	87,682			87,682	87,682
Petty Cash	<u>100</u>			<u>100</u>	<u>100</u>
Total Cash	\$ <u>145,302</u>	\$	\$	\$ <u>145,302</u>	\$ <u>145,302</u>
Investments:					
C/D's	\$ <u>87,185</u>	\$	\$	\$ <u>87,185</u>	\$ <u>87,185</u>

In addition to the above analysis, the Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Notes to Financial Statements- continued

Note 2: Prepaid Expenses

Prepaid expenses consist of the following:

Prepaid Insurance	\$ 14,571
Prepaid Health Insurance	<u>6,087</u>
	\$ <u>20,658</u>

Note 3: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 823,793	\$	\$	\$ 823,793
Buildings	5,684,153			5,684,153
Furniture & Equipment-Dwellings	38,212			38,212
Furniture & Equipment-Admin	187,612	2,852	18,422	172,042
Leasehold Improvements	<u>2,833,040</u>	<u>238,594</u>		<u>3,071,634</u>
	\$ 9,566,810	\$ 241,446	\$ 18,422	\$ 9,789,834
Less Accumulated Depreciation	<u>3,345,406</u>	<u>313,662</u>	<u>18,422</u>	<u>3,640,646</u>
	\$ <u>6,221,404</u>	\$ <u>(72,216)</u>	\$ _____	\$ <u>6,149,188</u>

Note 5: Accrued Liabilities- Other

Accrued Liabilities- Other consist of the following:

Utilities	\$ <u>22,333</u>
-----------	------------------

Note 6: Pension Plan

The Ferndale Housing Commission contributes to a Simplified Employee Pension Plan, (SEPP). The Commission pays a percentage of all eligible employees wages to the fund. Employees are 100 % vested as soon as they are eligible. Eligibility requirements are as follows: full time employee, over 21 years of age, and have worked for the Commission for at least three of preceding five years. Information concerning the pension fund is contained in a separate audit report.

Notes to Financial Statements- continued

Note 7: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 19,355,000
General Liability	1,000,000
Dishonesty Bond	1,000,000
Auto Insurance	1,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

Note 8: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 9: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Ferndale Housing Commission

31-Dec-04

MI096

Combining Balance Sheet		Low Rent 14.850	Housing Choice Voucher Program 14.855	Capital Projects Funds 14.872	Section 8 Mod Rehab 14.856	TOTAL
Line Item #						
	ASSETS:					
	CURRENT ASSETS:					
	Cash:					
111	Cash - unrestricted	124,967	19,457	-	878	145,302
112	Cash - restricted - modernization and development	-				-
113	Cash - other restricted					-
114	Cash - tenant security deposits					-
100	Total cash	124,967	19,457	-	878	145,302
	Accounts and notes receivables:					
121	Accounts receivable - PHA projects					-
122	Accounts receivable - HUD other projects	-	43,314	10,165		53,479
124	Accounts receivable - other government					-
125	Accounts receivable - miscellaneous	41				41
126	Accounts receivable- tenants - dwelling rents	1,520				1,520
126.1	Allowance for doubtful accounts - dwelling rents	(760)				(760)
126.2	Allowance for doubtful accounts - other					-
127	Notes and mortgages receivable- current					-
128	Fraud recovery					-
128.1	Allowance for doubtful accounts - fraud					-
129	Accrued interest receivable					-
120	Total receivables, net of allowances for doubtful accounts	801	43,314	10,165	-	54,280
	Current investments					-
131	Investments - unrestricted	138,331	-		34,973	173,304
132	Investments - restricted					-
142	Prepaid expenses and other assets	20,658				20,658
143	Inventories	-				-
143.1	Allowance for obsolete inventories					-
144	Interprogram - due from	86,040	12,127	-	44,134	142,301
146	Amounts to be provided					-
150	TOTAL CURRENT ASSETS	370,797	74,898	10,165	79,985	535,845
	NONCURRENT ASSETS:					
	Fixed assets:					
161	Land	823,793				823,793
162	Buildings	5,684,153				5,684,153
163	Furniture, equipment & machinery - dwellings	38,212				38,212
164	Furniture, equipment & machinery - administration	172,042	-	-		172,042
165	Leasehold improvements	2,723,051		348,583	-	3,071,634
166	Accumulated depreciation	(3,634,718)	-	(5,928)		(3,640,646)
160	Total fixed assets, net of accumulated depreciation	5,806,533	-	342,655	-	6,149,188
171	Notes and mortgages receivable - non-current					-
172	Notes and mortgages receivable-non-current-past due					-
174	Other assets					-
175	Undistributed debits					-
176	Investment in joint ventures					-
180	TOTAL NONCURRENT ASSETS	5,806,533	-	342,655	-	6,149,188
190	TOTAL ASSETS	6,177,330	74,898	352,820	79,985	6,685,033

	LIABILITIES AND EQUITY					
	LIABILITIES:					
	CURRENT LIABILITIES					
311	Bank overdraft					-
312	Accounts payable ≤ 90 days	22,746	675		500	23,921
313	Accounts payable > 90 days past due					-
321	Accrued wage/payroll taxes payable	17,475				17,475
322	Accrued compensated absences	4,670				4,670
324	Accrued contingency liability					-
325	Accrued interest payable					-
331	Accounts payable - HUD PHA programs		-		1,145	1,145
332	Accounts Payable - PHA Projects					
333	Accounts payable - other government	23,584	-	-		23,584
341	Tenant security deposits	33,700				33,700
342	Deferred revenues	7,636				7,636
343	Current portion of Long-Term debt - capital projects					-
344	Current portion of Long-Term debt - operating borrowings					-
345	Other current liabilities	-				-
346	Accrued liabilities - other	22,333	-			22,333
347	Inter-program - due to	12,127	44,134	-	75,875	132,136
310	TOTAL CURRENT LIABILITIES	144,271	44,809	-	77,520	266,600
	NONCURRENT LIABILITIES					
351	Long-term debt, net of current- capital projects					-
352	Long-term debt, net of current- operating borrowings					-
353	Noncurrent liabilities- other	-				-
354	Accr. Comp. Absences-Non Current	42,035		10,165		52,200
350	TOTAL NONCURRENT LIABILITIES	42,035	-	10,165	-	52,200
300	TOTAL LIABILITIES	186,306	44,809	10,165	77,520	318,800
	EQUITY:					
501	Investment in general fixed assets					-
	Contributed Capital:					
502	Project notes (HUD)					-
503	Long-term debt - HUD guaranteed	-				-
504	Net HUD PHA contributions	-			-	-
505	Other HUD contributions					-
508.01	Net Assets invested in Capital Assets	5,806,533		342,655		6,149,188
508	Total contributed capital	5,806,533	-	342,655	-	6,149,188
	Reserved fund balance:					-
509	Reserved for operating activities					-
510	Reserved for capital activities					-
511	Total reserved fund balance	-	-	-	-	-
512	Undesignated fund balance/retained earnings	184,491	30,089	-	2,465	217,045
513	TOTAL EQUITY	5,991,024	30,089	342,655	2,465	6,366,233
600	TOTAL LIABILITIES AND EQUITY	6,177,330	74,898	352,820	79,985	6,685,033

Proof of concept

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Depreciation Add Back

Ferndale Housing Commission

31-Dec-04

MI096

Combining Income Statement		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.855	Capital Projects Funds 14.872	Section 8 Mod Rehab 14.856	TOTAL
Line Item #				-		
	REVENUE:	-	-			
703	Net tenant rental revenue	398,755				398,755
704	Tenant revenue - other	-				-
705	Total tenant revenue	398,755	-	-	-	398,755
706	HUD PHA grants	246,659	895,539	238,594	484,204	1,864,996
708	Other government grants					-
711	Investment income - unrestricted	2,157	41	-	528	2,726
712	Mortgage interest income					-
714	Fraud recovery		913			913
715	Other revenue	7,512	-	-		7,512
716	Gain or loss on the sale of fixed assets					-
720	Investment income - restricted					-
700	TOTAL REVENUE	655,083	896,493	238,594	484,732	2,274,902
	EXPENSES:					
	Administrative					
911	Administrative salaries	94,313	73,829		20,000	188,142
912	Auditing fees	2,850				2,850
913	Outside management fees					-
914	Compensated absences	3,939				3,939
915	Employee benefit contributions- administrative	39,821	33,000		7,500	80,321
916	Other operating- administrative	104,208	16,331	-	1,000	121,539
	Tenant services					
921	Tenant services - salaries					-
922	Relocation costs	-				-
923	Employee benefit contributions- tenant services					-
924	Tenant services - other	1,219				1,219
	Utilities					
931	Water	54,460				54,460
932	Electricity	28,776				28,776
933	Gas	42,035				42,035
934	Fuel					-
935	Labor					-
937	Employee benefit contributions- utilities					-
938	Other utilities expense	-				-
	Ordinary maintenance & operation					
941	Ordinary maintenance and operations - labor	110,604				110,604
942	Ordinary maintenance and operations - materials & other	16,769				16,769
943	Ordinary maintenance and operations - contract costs	102,429				102,429
945	Employee benefit contributions- ordinary maintenance	46,745				46,745
	Protective services					
951	Protective services - labor					-

FERNDALE HOUSING COMMISSION
Schedule of Federal Financial Assistance
For the Year Ended December 31, 2004

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
<u>CFDA 14.850 Public and Indian Housing</u>	
C-3029 Operating Subsidies	\$ <u>246,659</u>
* <u>CFDA 14.855 Housing Assistance Program</u>	
C-3099V Section 8 Housing Choice Vouchers	\$ <u>895,539</u>
<u>CFDA 14.872 Capital Projects Program</u>	
C-3029 Capital Projects Funds	\$ <u>238,594</u>
* <u>CFDA 14.856 Lower Income Housing Assistance</u>	
C-3117 Section 8 New Construction	\$ <u>484,204</u>
	\$ <u>1,864,996</u>

*Connotes Major Program Category

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 19,355,000
General Liability	1,000,000
Automobile Liability	1,000,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

FERNDALE HOUSING COMMISSION
Status of Prior Audit Findings
December 31, 2004

The prior audit of the Ferndale Housing Commission for the period ended December 31, 2003, did not contained any audit findings or questioned cost.

FERNDALE HOUSING COMMISSION
Report on Compliance with Requirements
Applicable to Each Major Program
and on Internal Control over Compliance in
Accordance with OMB Circular A-133
December 31, 2004

Compliance

I have audited the compliance of Ferndale Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2004. Ferndale Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Ferndale Housing Commission's management. My responsibility is to express an opinion on Ferndale Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ferndale Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Ferndale Housing Commission's compliance with those requirements.

In my opinion, Ferndale Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Low Rent Public Housing:		
Credit Card Policy	04-1	Activities Allowed or Allowable
Section 8 Housing Choice Vouchers:		
Tenant Accounting Discrepancies	04-2	Eligibility

Internal Control over Compliance

The management of Ferndale Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Ferndale Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

June 17, 2005

FERNDALE HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
December 31, 2004

I have audited the financial statements of Ferndale Housing Commission, Ferndale, Michigan, as of and for the year ended December 31, 2004, and have issued my report thereon dated June 17, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Ferndale Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs: finding 04-1 and 04-2.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Ferndale Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. I did not note any matters relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgement, could adversely affect Ferndale Housing Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe no reportable conditions or material weaknesses exist.

This report is intended solely for the information and use of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

June 17, 2005

FERNDALE HOUSING COMMISSION
Schedule of Findings & Questioned Cost
December 31, 2004

The following findings of the Ferndale Housing Commission, for the year ended December 31, 2004, was discussed with the Executive Director, Ms. Deborah Wilson, in an exit interview conducted June 17, 2005.

Finding 4-1:

The Commission has a credit card, however no credit card policy in place.

Recommendation

No abuse of the credit card was detected, however, the Commission should have a written policy in place which states the conditions, users, and restrictions placed on the Commission credit card.

I recommend the Commission draft and approve a credit card policy.

Reply

The Ferndale Housing Commission was unaware that a credit card policy was required; however, at the July 13, 2005, regular meeting of the Ferndale Housing Commission a "Credit Card Use" policy was adopted. The policy outlines the conditions and restrictions for using Ferndale Housing Commission credit cards.

Finding 04-2:

Tenant Accounting Discrepancies, Section 8 Housing Choice Vouchers

Out of 8 files tested the following discrepancies were discovered:

- 2 files lacked sufficient third party income verification or used the incorrect income in the rent calculation
- 1 used the incorrect utility allowance

Recommendation

HUD requires the above verifications and computations; non compliance with the above requirements could result in miscalculated rents.

I would recommend the Commission review the recertification process and implement a monitoring program to insure compliance with HUD requirements.

Reply

Procedures have long been implemented to reduce errors in tenant accounting, especially the verification process. The errors occurred for the following reasons: First, a minor child reached the age of 18 years of age and software system did not update the file to eliminate the \$ 480. dependent deduction. This has been corrected and the rent adjusted accordingly. Second, the participant qualified for a medical deduction and all medical expenses were verified properly; however, the deduction for health insurance cost was inadvertently keyed into the computer incorrectly. This has been corrected, the rent adjusted accordingly, and the family has been reimbursed for the excess rent payments they incurred. Lastly, our utility allowances are revised on February 1 of each year. The software system is designed to store the prior years allowances, as well as, the current year. During the recertification process the prior years allowances were deducted from the Gross Rent. Only one month elapsed before the error was noted. This has been corrected, the rent adjusted accordingly, and the family has been reimbursed for the excess rent payment they incurred. The software vendor is researching methods to eliminate errors in the future.